



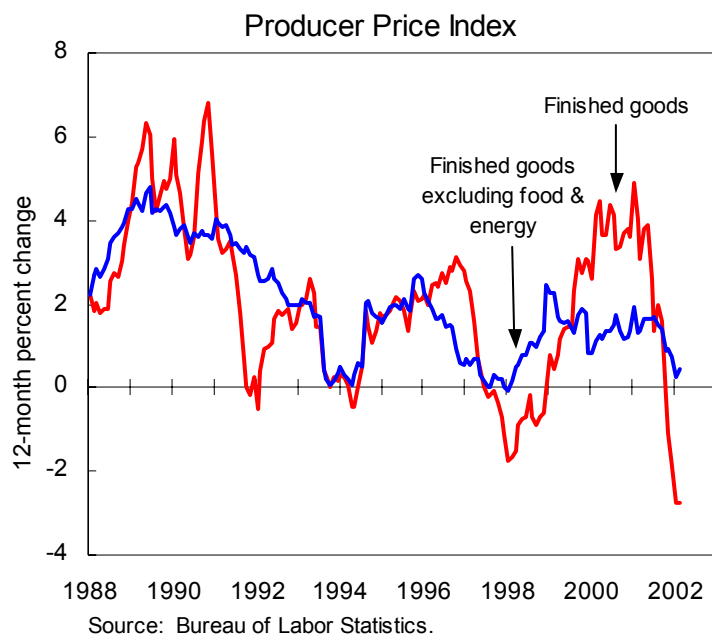
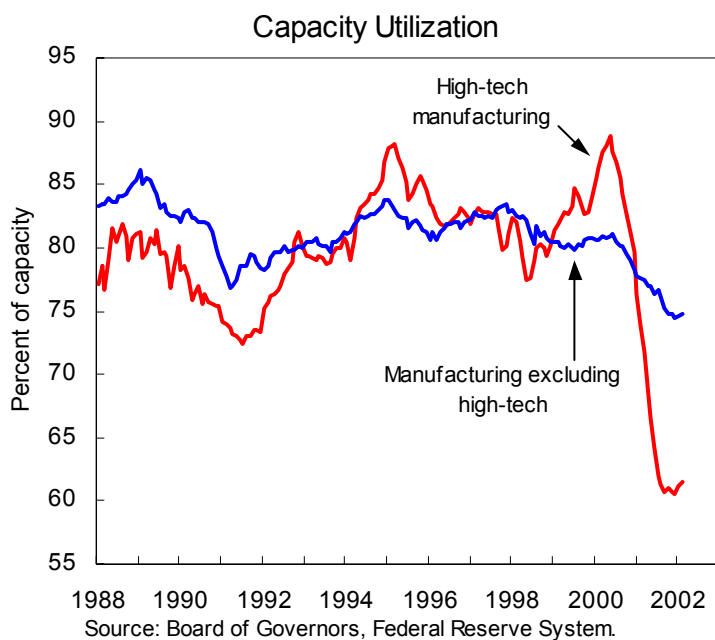
# WEEKLY ECONOMIC DIGEST



JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

March 19, 2002

## With Signs of Strength and Modest Inflation, Fed Move is Unlikely



- **Retail sales edged up in February and consumer confidence may be on the rise.** After surging 1.2 percent in January, retail and food service sales excluding motor vehicles increased 0.2 percent in February, according to preliminary Census Bureau estimates. That rise left sales 2.8 percent above the levels that prevailed a year earlier. Although last month's increase was smaller than many analysts had expected, personal consumption expenditures appear to be on track for a relatively strong quarter. Additionally, the University of Michigan's index of consumer sentiment rose to its highest level since December 2000, according to preliminary estimates for March.
- **Industrial production rose in February.** Following a revised increase of 0.2 percent in January, industrial production increased by 0.4 percent last month. Factory operating rates averaged 73.2 percent of capacity, up 0.3 percentage points since December. Capacity utilization rates for producers of high-tech items (computers, semiconductors, and communications equipment) rose to 61.5 percent. In addition to increasing production since the start of the year, businesses also increased their inventories in January (the last month for which data are available), a strong signal that businesses are beginning to believe that the worst is over for the economy.
- **Inflation at the producer level continued at a moderate pace.** Producer prices rose 0.2 percent in February, but owing to declines in energy prices last year, they are 2.6 percent below the levels of February 2001. Excluding energy and food prices, wholesale prices were unchanged last month, and were up a scant 0.5 percent over the previous year. Prices for imported goods excluding petroleum fell by 0.5 percent in February, down 5 percent from a year earlier.
- **The Fed is expected to leave rates unchanged for now.** The Federal Open Market Committee (FOMC) is likely to decide today to keep short-term interest rates at current levels. With the economy showing clearer signs of strengthening and inflation showing no signs of kicking up, the central bank can afford to take a wait-and-see attitude. Prices of federal funds futures suggest that the FOMC is not likely to raise rates until their next meeting, in May.

<b>Economy At A Glance</b>	Feb	Jan	Dec	Nov	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2001	2000
<b>Economic Activity</b>										
Real GDP (% growth)					1.4	-1.3	0.3	1.3	1.2	4.1
Industrial Production (% growth)	4.9	2.4	-3.5	-3.5	-6.6	-4.7	-5.9	-6.1	-3.8	4.5
Capacity Utilization (Level, %)	74.8	74.5	74.4	74.7	74.7	76.2	77.4	78.9	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.5	5.6	5.8	5.6	5.6	4.8	4.5	4.2	4.8	4.0
Housing Starts (Thousands)*		1678	1579	1616	1571	1601	1623	1627	1606	1575
Real Disposable Personal Income (% growth)		18.9	4.6	1.6	-7.9	12.3	2.4	2.7	3.6	3.5
Retail Sales (% growth)	3.3	-3.8	2.9	-29.7	12.3	-1.3	5.5	4.8	3.5	7.6
Personal Saving Rate (Level, %)		1.8	0.6	0.4	0.4	3.8	1.1	1.1	1.6	1.0
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)*		2.4	-1.2	-1.2	-0.3	0.7	3.1	3.9	2.8	3.4
Core CPI-U Inflation (% growth)*		2.4	1.2	4.9	2.7	2.7	2.4	3.0	2.7	2.4
Compensation per Hour (% growth)					4.1	3.6	4.1	4.5	4.1	4.4
Output per Hour (% growth)					5.2	1.1	2.1	-0.1	1.9	3.3
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.7	1.9	1.9	3.2	3.7	4.8	3.4	5.8
T-Note Rate, 10-years (Level, %)	4.9	5.0	5.1	4.7	4.8	5.0	5.3	5.1	5.0	6.0
Federal Funds Rate (Level, %)	1.7	1.7	1.8	2.1	2.1	3.5	4.3	5.6	3.9	6.2
Dow Jones Industrial Avg (Index Level)	9891	9924	9980	9722	9641	9934	10669	10513	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

#### Major Economic News Due This Week:

- **International Trade, January** [Release: Tuesday, March 19, 2002]
- **Federal Open Market Committee Meeting** [Tuesday, March 19, 2002]
- **New Residential Construction, February** [Release: Wednesday, March 20, 2002]
- **Consumer Price Index, February** [Release: Thursday, March 21, 2002]